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NEWS RELEASE

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PSC GIVES KENTUCKY-AMERICAN WATER APPROVAL TO BUILD TREATMENT PLANT AND PIPELINE

Company ordered to develop conservation plan and report progress

FRANKFORT, Ky. (April 25, 2008) – The Kentucky Public Service Commission (PSC) today approved the application of Kentucky-American Water Co. to construct a new water treatment plant on the Kentucky River in Owen County and to build a pipeline from the plant to connect to the company's system in Fayette County.

In an order issued today, the PSC said the new facilities are needed to address a long-standing water supply deficit in the company's central Kentucky service area. Kentucky-American presented a reasonable plan for meeting projected water supply needs, the PSC said.

"The Commission recognizes the gravity and import of this decision, which will affect hundreds of thousands of consumers for decades to come," the PSC said. "The Commission conducted an exhaustive examination of the issues in this case, going so far as to delay proceedings for the gathering of additional evidence in order to more fully explore all options."

Kentucky-American plans to build a treatment plant in Owen County that would draw water from Pool 3 on the Kentucky River. The plant, with a capacity of 20 million gallons per day, would be connected to the Lexington-area water system via a 31-mile pipeline that would pass through Franklin and Scott counties.

Kentucky-American serves nearly 117,000 customers in Fayette and nine surrounding counties. It sells water to four cities and three smaller water utilities. The company directly or indirectly supplies water to more than 325,000 people.

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The Kentucky-American plan was the only proposal before the PSC. The Louisville Water Co., which participated in the case, said it could meet the Lexington area's water needs with a pipeline from its facilities on the Ohio River.

But Louisville Water's proposal could be considered only for the purpose of determining whether Kentucky-American's plan is reasonable, the PSC noted. Louisville Water argued it could supply water to Lexington at a substantially lower cost and with greater reliability.

The PSC rejected that argument. The estimated construction cost of the Kentucky-American plan is \$160 million. Louisville Water's consultant estimated the cost of constructing its project at \$87 million to \$112 million, depending on the diameter of the pipeline.

But an economic analysis prepared by the PSC staff looked at the total cost of the Kentucky-American and Louisville Water plans over a 20-year period, beginning in 2010. It found the long-term costs to be nearly identical.

Furthermore, the PSC said, Kentucky-American submitted a detailed proposal, including construction bids, and had obtained all other regulatory approvals needed to begin construction. In contrast, the Louisville Water plan did not include information on location of key facilities, who would build those facilities, and the extent of the PSC jurisdiction over the ultimate cost of water supplied to the Lexington area, the PSC said.

Louisville Water's "proposal never evolved beyond a series of concepts," the PSC said. The totality of the evidence in the case clearly favored Kentucky-American, the PSC said.

"The Commission believes that a safe, reliable and adequate supply of water, provided at reasonable rates, is essential to the health and economic well-being of every community," it said. "We are convinced that our decision today provides central Kentucky with the most timely, cost-effective and reliable solution to its water supply needs in the coming decades.

"We are likewise convinced that the evidence placed before us compels the result we reach today," the PSC said.

In today's order, the PSC noted that it has taken more than two decades to arrive at a decision on an additional water supply for the Lexington area. (Timeline follows)

"It is our fervent hope that this decision will bring a measure of closure to the controversy of the last 20 years and will allow this region to move forward in addressing its pressing need for an additional source of water," the PSC said. "It is long overdue."

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The order requires Kentucky-American to take steps to conserve water and to plan to meet future needs in a timely manner.

Noting that it is “outlandish” to interpret adequate service as providing “sufficient capacity to allow every customer to use every available faucet, spigot, shower and toilet...simultaneously and continuously in the midst of a drought of record,” the PSC ordered Kentucky-American to develop a water conservation plan that includes usage restrictions when needed and steps to reduce losses from leaking water lines.

By Oct. 1, Kentucky-American is to retain a consultant to develop a water conservation plan. Beginning Nov. 1, Kentucky-American will be required to submit monthly reports on the status and effects of its water conservation efforts

Kentucky-American also is required to make quarterly reports to the PSC detailing the progress and costs of the project.

Within 10 days of the date that the new plant is first used at 80 percent of its capacity under normal operating conditions, Kentucky-American must notify the PSC. The company then must – within 180 days – provide to the PSC a new assessment of its projected water demand for the following 20 years and possible ways to supply that demand.

The PSC noted that the case has drawn a great deal of public interest, with hundreds of comments received. The commission held three meetings to take public comment and two multi-day hearings to examine evidence.

“We take this opportunity to thank all of the parties for their diligence and attention to presenting their cases to the Commission,” the PSC said. “We especially thank also all of the many Kentuckians who took the time and made the effort to share their opinions, concerns and questions with the Commission.”

Commissioner Caroline Pitt Clark did not participate in the PSC decision.

Today’s order, documents in the case and recordings of the public meetings and hearings in the case are available on the PSC Web site, psc.ky.gov. The case number is 2007-00134.

The PSC is an independent agency attached for administrative purposes to the Department of Public Protection in the Environmental and Public Protection Cabinet. It regulates more than 1,500 gas, water, sewer, electric and telecommunication utilities operating in the Commonwealth of Kentucky and has approximately 110 employees.

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TIMELINE FOLLOWS

TIMELINE OF THE CENTRAL KENTUCKY WATER SUPPLY ISSUE

- 1986 Kentucky-American Water Co. completes a study which identifies a deficit in its source of supply from Pool 9 on the Kentucky River and recommends construction of a 5-million-gallon-per-day facility on Pool 6.
- 1988 Following a drought that led to restrictions of water withdrawals from the Kentucky River, Kentucky-American drops the Pool 6 plan.
- 1989 Lexington-Fayette Urban County Government forms the Kentucky River Basin Steering Committee to study the water supply issue. It proposes several possible solutions, including rehabilitating Kentucky River dams to increase water storage and constructing a pipeline from the Ohio River.
- 1992 Kentucky-American, which has increased its treatment capabilities, issues a study raising the possibility of a pipeline from Louisville.
- 1993 Kentucky-American includes the cost of planning a Louisville pipeline in its request for a rate increase. The request is denied by the PSC because of non-conformance with ratemaking requirements.
- 1994 The PSC opens a case to examine the Louisville pipeline proposal and the larger questions of projected demand for water in central Kentucky and how to meet that demand.
- March 1995 PSC defers action on the water supply issue until the Kentucky River Authority (KRA) completes a study on the availability of water from the river.
- August 1996 KRA report projects water shortages would occur during a severe drought.
- August 1997 PSC orders Kentucky-American to develop a plan for meeting the projected water supply deficit.
- April 1998 Kentucky-American begins planning for a pipeline to Louisville.
- November 1998 Kentucky-American and Louisville Water Co. enter into a 50-year water supply agreement, which is not approved by the PSC because Kentucky-American had not requested approval from the PSC to build a pipeline to carry the water.
- July 1999 Fayette County Water Supply Planning Council recommends construction of a pipeline to Louisville.
- December 1999 Lexington-Fayette Urban County Council adopts resolution saying that the county's future water supply should be drawn from the Kentucky River.
- January 2000 Kentucky-American drops Louisville pipeline plan.

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TIMELINE OF THE CENTRAL KENTUCKY WATER SUPPLY ISSUE – Page 2

- May 2001 PSC initiates new case to examine the water supply issue in Kentucky-American service territory. Its preliminary findings include the identification of a substantial supply deficit that cannot be met through increased storage in Pools 9 and 10 on the Kentucky River. After other parties to the case object to the findings, the PSC orders further investigation.
- 2001 Bluegrass Water Supply Consortium (Consortium), a group of 17 municipal and public utilities (including Kentucky-American), is formed to examine the water supply issue.
- March 2002 The Consortium initiates its study. The PSC case is held in abeyance pending submission of the Consortium report.
- February 2004 Consortium submits a report identifying a need for an additional 45 million gallons per day of capacity in the region and evaluating more than 40 options for meeting the demand. The report recommends a new treatment plant on Pool 3 of the Kentucky River.
- August 2004 Several municipal members of the Consortium form the Bluegrass Water Supply Commission (BWSC) for the purpose of seeking funding to build the plant. Kentucky-American is anticipated as a partner in the project.
- November 2004 Kentucky-American informs the PSC that it is willing to work with the BWSC, but will move ahead on its own if the BWSC is unable to initiate the project in a timely manner.
- March 2006 BWSC informs PSC and Kentucky-American that it has been unable to obtain sufficient funding to begin the Pool 3 project. Kentucky-American says it will proceed to build the plant and pipeline.
- March 2007 Kentucky-American submits its application for the Pool 3 project. Louisville Water, BWSC, KRA, Lexington-Fayette Urban County Government, Kentucky Industrial Utility Customers, Citizens for Alternative Water Solutions and the Kentucky Office of Attorney General are granted intervention in the case.
- September 2007 PSC holds public meetings in Owenton, Lexington and Frankfort.
- November 2007 PSC holds evidentiary hearing in Frankfort.
- December 2008 PSC extends procedural schedule in order to gather more information from the parties regarding additional options and proposals beyond Kentucky-American's.
- March 2008 PSC holds second evidentiary hearing. Record is closed and case is submitted to the PSC for its decision.